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PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING: APPROPRIATE MEASURES TO GIVE EFFECT TO THE WORK OF THE GROUP; RENEWAL OF THE MANDATE AND REVIEW OF THE OBJECTIVES

Appropriate measures to give effect to the work of the Group: renewal of the mandate of the Group

Report of the Secretary-General

SUMMARY

The present report discusses issues relating to the renewal of the mandate of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting. First, it reviews the original mandate as contained in Economic and Social Council resolution 1982/67 in the light of the changing global economy. Greater European integration by 1992, structural changes in Eastern Europe, stagnation in Africa and Latin America and the globalization of financial markets have all contributed to the expanding role of transnational corporations. At the same time, considerable efforts have been made to reduce accounting diversity and improve comparability of financial statements. This report evaluates those efforts world wide. It takes up the question of increased international cooperation and the role of the Group as a global body. Finally, it provides the Group with a draft proposal for a new mission statement and practical suggestions on how its objectives can be achieved.

* E/C.10/AC.3/1991/1.

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INTRODUCTION

1. At its eighth session, in 1990, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting discussed the need to review its original mandate in the light of changes in the global economy, the expanded role of transnational corporations and improvements in accounting and reporting. The Group suggested that the United Nations Centre on Transnational Corporations redefine the objectives of the Group taking into consideration the following aspects (see E/C.10/1990/7, sect. F):

(a) That the objectives of the Group should be stated in positive terms in relation to the global economy of today;

(b) That the Group should make a positive contribution to national, regional and international standard-setting;

(c) That the Group should continue to take into account the interests of all countries, including developing countries, countries of Eastern Europe and countries having centrally planned economies, and to assist them in the adoption and implementation of internationally recognized standards through (i) education, (ii) programmes for professional qualifications of accountants, (iii) organization of the accounting profession, (iv) development of standard-setting mechanisms and (v) development of appropriate enabling legislation;

(d) That it should continue to provide a forum for a review of standards from a global perspective.

2. The present report first reviews the original mandate of the Group, contained in Economic and Social Council resolution 1982/67, in the light of the above-mentioned developments in order to determine whether it should be modified. It then examines the constituencies, objectives and work of other standard-setting groups to determine whether there is any unnecessary duplication. It discusses the practical difficulties in modifying a resolution of the Economic and Social Council and proposes alternatives. Finally, it provides the Group with a redefinition of its objectives and suggests measures to attain them.

I. MANDATE OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING AND ITS IMPLEMENTATION

3. By resolution 1982/67, the Economic and Social Council established the International Standards of Accounting and Reporting. The resolution represented the culmination of years of activities in the area of information disclosure and harmonization of accounting standards. Those activities began in 1975, when a Group of Eminent Persons was appointed to examine the effects of transnational corporations on developing countries. Their recommendations were studied by an expert group, which issued a minimum list for the disclosure of financial and non-financial information in 1977. In May 1979, an ad hoc intergovernmental group was set up to deal with the issues identified by the expert group in 1977.

4. The Ad Hoc Group held six sessions between 1980 and 1982. The results of its deliberations are contained in its report (E/C.10/1982/8/Rev.1). 1/ Its main recommendation was that the Group be put on a more formal and effective basis by the creation of an intergovernmental expert group which would meet on a regular basis to fulfil a specific mandate. Hence the establishment of the International Standards of Accounting and Reporting.

5. The three objectives of the Group, set out in Council resolution 1982/67 are, first, to serve as an international body for the consideration of accounting and reporting issues; second, to make a positive contribution to national and regional standard-setting and, third, to take into account the interests of developing countries in the field of information disclosure.

6. To fulfil the first part of its mandate, the Group has taken upon itself a number of tasks. First, it assesses on a continual basis the information needs of all users of financial statements, including investors, creditors, home and host Governments, suppliers, consumers, employees and their representatives and the general public.

7. Secondly, the Group consults other international bodies (e.g., the European Community, the Organisation for Economic Co-operation and Development (OECD), the International Accounting Standards Committee (IASC)) on the development of international standards and reviews them to ensure that they meet the needs of all users. Where gaps exist, the Group formulates recommendations. One case in point is accounting for environmental protection measures. These review and formulation functions of the Group require that it engage in basic research rather than merely conducting a "Gallup-poll" of various accounting practices.

8. Thirdly, in order to improve the availability and comparability of information disclosed by transnational corporations, the Group monitors such disclosure and evaluates the extent to which international standards are applied and the information needs of users met.

9. The results of the Group's work in the area of review, monitoring and formulation of standards are contained in Conclusions on Accounting and Reporting by Transnational Corporations, 2/ Objectives and Concepts Underlying Financial Statements 3/ and the reviews of International Accounting and Reporting Issues, published annually since 1984.

10. The Group makes a positive contribution to national and regional standard-setting by providing standard-setters with regular opportunities to consult and cooperate to improve harmonization and comparability. The Group, through the United Nations Centre on Transnational Corporations, has undertaken a survey of accounting needs in Africa and has supported the organization of workshops and seminars, the formation of a task force on new accounting regulations and the organization of intensive training courses. The United Nations is well suited for the activity of disseminating information and organizing training and technical assistance since it can make use of the UNDP network and facilities of the United Nations Development Programme.

11. At present, the Group is concentrating on two areas: Africa and Eastern Europe and the Union of Soviet Socialist Republics. The Group recently surveyed *accounting needs in 37 African countries with the help of the United Nations Centre* on Transnational Corporations, the World Bank and the International Labour Organisation. The Group called upon the Centre to take appropriate follow-up action. Specifically, the Centre is to hold regional meetings in Africa for the purpose of discussing the findings of the survey and identifying, with the representatives of Governments, academia and the accounting profession, long-term and comprehensive strategies to strengthen accountancy development. The regional meetings will also formulate pilot projects based on these strategies.

12. During the past two years, the Centre has provided technical assistance to Czechoslovakia, Poland, the Union of Soviet Socialist Republics and Yugoslavia in the areas of accounting, joint ventures, foreign direct investment and free enterprise zones. For example, in June 1989, the Centre and the USSR Chamber of Commerce organized a Workshop on Accounting for and by East-West Joint Ventures. It brought together over 150 people from Government, joint ventures, international accounting firms and academia for the first public discussion of accounting regulations. The Workshop identified problems arising from divergent national accounting regulations, explored ways to improve comparability, and discussed the need for accounting education and training. The Workshop papers have been published by Lafferty Publications and Finance and Statistics Publishing House, in English and Russian, under the title Accounting for East-West Joint Ventures. The Workshop recommended the establishment of an international Task Force to assist the Ministry of Finance in the revision of accounting regulations. It also elaborated three curricula for education and training in international accounting, aimed at university students, accounting practitioners and Soviet professors. Within a year of the Workshop, the Task Force was set up and courses for university students were organized. Training for Soviet professors will take place during 1991.

II. CHANGES IN THE GLOBAL ECONOMY AND RELEVANCE OF THE MANDATE

A. Role of transnational corporations

13. Since 1973, when the United Nations became involved in the area of corporate accounting and reporting and since 1982, when the Group was established, many changes have occurred in the world economy. For example, inward foreign direct investment (FDI) has increased from $18 billion in 1973 to $200 billion in 1989. It has grown at a compound rate of 16 per cent annually or faster than world output (3 per cent) or world trade (3 per cent). Of course, FDI is a proxy for the activity of transnational corporations. Thus, two things have occurred simultaneously, the role of transnational corporations has expanded and has become more positive. 4/ The main conclusion of the fourth survey of Transnational Corporations in World Development 5/ is that relations between transnational corporations and most developing countries have improved over the past decade compared with the 1960s and 1970s. Transnational corporations have taken new initiatives in corporate responsibility and more effective international governance. Developing country Governments are beginning to appreciate the

employment, skills, exports and import-substitutes that transnational corporations can deliver. According to the fourth survey, the largest transnational corporations create a fifth of the world's total value-added in manufacturing and agriculture and 6 per cent of world employment. In many developing countries the contributions of transnational corporations are even more significant. For example, transnational corporations accounted for 55 per cent of Singapore's employment in manufacturing in 1982, 63 per cent of its manufacturing output and 90 per cent of its exports of manufacturing goods. 6/

14. Governments of developing countries, have adopted a more conciliatory approach to transnational corporations owing to a series of pressures. Slow economic growth, the burden of foreign debt and the expanding technological lead of developed countries have led them to re-evaluate the contribution of transnational corporations. At the same time, the forces of deregulation and open-markets have come to dominate the global economic environment. Many countries are selling off state enterprises and the emphasis is on private capital rather than public capital. This atmosphere has also given transnational corporations added scope for manoeuvre. There are also other changes. Transnational corporations are expanding and diversifying into services. There are many new players among them - notably small and medium-sized corporations and corporations from the newly industrialized countries. The full impact of these newcomers on developing countries has yet to be determined.

15. Financial markets have become more global and more interdependent. For example, debt raised in capital markets increased from $53 billion in 1980 to $328 billion in 1989 and more than 500 companies are listed on at least one stock exchange. 7/ Regulators are keen to have maximum transparency through information disclosure and comparable practices. The crash of the United States stock market in 1987 and its continued volatility in 1989 and 1990; the world-wide growth in the use of new financial instruments, advances in telecommunications, including programme trading of stocks, and the 1988-1989 wave of mergers and acquisitions and its attendant asset-stripping have led many financial experts to question the adequacy of the information provided in corporate financial statements. To adequately control the global capital markets, comparable rules are still needed. In a recent study, 56 per cent of large investors said that accounting diversity affected their decisions and that they required a higher rate of return owing to lack of information. 8/ A number of national regulators have recently called for comparable rules of accounting and disclosure by enterprises listed on their exchanges. Regulators are anticipating increased cross-border activity after 1992 and want a system in place which will assure the stability of the global capital market as far as possible. In sum, the expansion of transnational corporations, the emergence of new transnational corporations and the interlinking of financial markets would argue for the need to continue efforts to improve transparency.

B. Improvements in accounting and reporting

16. With the increased globalization of transnational corporations, investors and other users of financial statements have become more insistent on information disclosure and improved comparability. Their demands have been realized through a

number of groups working in the area of international standard-setting and harmonization. The OECD Guidelines for Multinational Enterprises (1976), the Fourth (1978), Seventh (1983) and Eighth (1984) Directives of the European Community, the Conclusions on Accounting and Reporting by Transnational Corporations prepared by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (1988), the 29 standards of the International Accounting Standards Committee (IASC) (1973-1990) and the standards of the International Federation of Accountants (IFAC) (1977-1990) have all been discussed, negotiated and approved during the past 15 years. Taken as a body, they constitute a minimum set of international norms. Of course, there are many forces that promote or impede harmonization.

17. Forces that tend to support harmonization efforts include:

(a) The growing trend for enterprises to source their capital needs abroad and the desire to find a uniform reporting model;

(b) The increasing use of "road shows", in which enterprises meet with analysts and investor groups at major financial centres;

(c) The growth of transnational business operations and the practice of having foreign subsidiaries conform their accounts to parent-country standards for consolidation purposes;

(d) Critical studies published in the financial press that monitor the reporting practices of transnational corporations, highlighting disconformities from international norms or desired practice;

(e) The global spread of professional accounting firms and the influence of head-office training in host countries;

(f) Policies of international lending organizations that encourage the use of internationally accepted accounting standards;

(g) Securities exchanges, international underwriters, international ratings agencies that demand the use of internationally accepted accounting standards;

(h) Activities of national, regional and international accounting organizations that recommend conformity with their pronouncements. 9/

18. Despite growing interest in narrowing areas of difference in accounting and reporting worldwide, progress has been slow. Several factors account for this state of affairs:

(a) National standard-setters are not eager to relinquish their autonomy or to adjust their accounting and reporting practices to externally established norms;

(b) Financial statements in various countries are aimed at different user groups;

(c) As accounting and reporting practices are shaped by different legal, social and institutional considerations, there is the fear that an international set of standards may make unlike things appear alike;

(d) Most international organizations that are promulgating international standards lack enforcement power. 10/

19. If enforced, international standards could improve both the transparency of the activities of transnational corporations as well as the comparability of their financial statements. While both users and preparers of financial statements have a much clearer picture than previously of the information that is supposed to be available and how certain transactions should be recorded, much improvement is needed in the area of compliance. There are periodic assessments of the degree of harmonization of practices and the results of lack of comparability in financial statements. In one such exercise, net income figures differed by a factor of 25, depending on which country's accounting rules were used. 11/

20. In the Group's recent survey of 194 enterprises from 23 countries, the overall score for disclosure of all 39 accounting items was 59 per cent. There was a divergence in information disclosure between enterprises from developed market economies (61 per cent) and those from other countries (42 per cent). Enterprises frequently did not give geographical or sectoral details about sales, operating results, new investments, assets and employees, nor did they inform users about intra-group transactions and pricing depreciation rates. 12/ The World Survey of Published Accounts 13/ came up with roughly the same results: only 62 per cent of the enterprises surveyed disclosed main activities by geographical area, 54 per cent disclosed sales by geographical area, 53 per cent disclosed employee costs. In 1987 and 1989, OECD conducted surveys to review the implementation of its Guidelines for Multinational Enterprises. The results of the 1989 survey indicated that "no significant changes have taken place since 1987"; furthermore, "the Guidelines tend to be more closely followed in those countries where disclosures are required by national accounting rules and practices. Where no legislative framework exists, there are examples of voluntary disclosure by companies ... but in general, considerable gaps in disclosure have been found in these countries. In particular, the survey found an average level of conformity for operating results, new capital investment, average number of employees and a low level of conformity for intra-group pricing policies". 14/

21. In commenting on this, OECD said there was a "reluctance of a considerable number of companies to provide segment information by line of business and/or geographical area. It is one of the main reasons why the results cannot be considered satisfactory and here the situation as compared to 1987 is virtually unchanged". 15/ The OECD Working Group on Accounting Standards noted that further promotional efforts by Governments, the business community and the accounting profession are clearly required.

22. The Federation of European Accountants produced a survey of the financial statements published by 200 companies for the Conference on the Future of Harmonization of Accounting Standards in the European Community. 16/ The objective of the survey was to determine whether or not the Fourth Directive has resulted in increased harmonization of accounting practices and comparability of financial

reporting. The Fourth Directive was passed in 1978 but has still not been adopted by three member States. While the limitations of the survey did not allow firm conclusions to be reached, the results of the survey suggest that for those areas addressed comprehensively by the Fourth Directive, there was a high degree of compliance.

23. Any lack of harmonization was not necessarily due to disagreements over accounting principles but rather to national differences in non-accounting areas such as company law, tax and social law. It is safe to say that, as the Fourth and Seventh Directives are fully implemented by national legislation the degree of regional harmonization should increase during the present decade. Given the fact that Czechoslovakia, Hungary and Poland intend to adopt the accounting directives of the European Community, this will improve the process of global harmonization.

24. Although the Fourth Directive sets out formats for financial statements, valuation principles and footnote disclosure, it allows a certain amount of free choice. For example, there are four profit and loss statement options and two balance sheet options. In countries where tax laws influence financial statements, the Fourth Directive has not altered the use of individual enterprise accounts for tax assessment purposes. The experience in implementing the Fourth Directive suggests that different interpretations of accounting rules within directives have led to variations in the way member States have enacted the directives (both Fourth and Seventh). In addition, there are areas which the directives do not tackle, leaving preparers free to make choices. There are still many differences in the detailed methods of computing profits and the amounts at which assets and liabilities are stated. Thus, important differences in accounting practices and accounting results will remain. Especially, in view of the fact that the European Community has decided it might be too soon to reduce the number of "free choices". 17/

25. IASC periodically assesses conformity with its standards. Each country completes a questionnaire which rates the degree of conformity between its national standards and IASC standards. Among those countries with less than 50 per cent conformity were Finland (12 per cent), Germany (28 per cent), Greece (24 per cent), Mexico (48 per cent) and Switzerland (36 per cent). Standards which were the least used were IAS 14, reporting by segments (49.02 per cent), IAS 15, inflation accounting (42.55 per cent) and IAS 26, pension accounting (55 per cent). In a move to improve the comparability of financial statements, IASC has undertaken a project (ED 32) to revise 12 of its standards by narrowing the range of options. In addition, IASC intends to follow up the comparability project with an "improvements" project to further eliminate alternatives, give additional guidance and re-address disclosure requirements. To ensure the success of its comparability project, it has undertaken a campaign to obtain the cooperation and support of national standard-setting bodies around the world and, in particular, of national securities commissions and stock exchanges. The acceptance of the revised IASC standards might ultimately be achieved owing to pressures from securities regulators and organizations such as the International Organization of Securities Commissions.

C. Accounting and reporting in developing countries

26. Very few surveys assess the situation of accounting and reporting in developing countries. The Group's own survey revealed that transnational corporations from developing countries disclose only 42 per cent of the information they should. Another survey showed that accountancy development in Africa, whether it is the organization of the profession, standard-setting or implementation, is in the initial stages. 18/ The Group serves a useful function when it provides developing countries with the opportunity to obtain information about the latest accounting developments and to participate in the dialogue on harmonization as well as to raise subjects which are of particular interest to them. For example, in the past, the Group has studied inflation accounting, pension costs, joint venture accounting and privatization, all of which were suggested by developing country representatives. There are a number of topics of interest to developing countries that need additional consideration, such as foreign currency translation, intra-firm transactions, value-added statements and investment programmes. Moreover, developing countries need more than just applied research. They need technical assistance to adapt or formulate standards as well as to implement them. Above all, they need sufficient members of fully qualified accountants to participate in both tasks. Thus, the part of the mandate which applies to developing countries appears to be as valid now as in 1982. In a review of the participation of developing countries in the sessions of the Group (see the annex below), it is apparent that developing countries are availing themselves of this opportunity.

27. Fifty-three per cent of representatives attending the annual sessions are from developing countries (see annex, table 1). Any shortcoming in participation was due to lack of resources either at the national level or within the United Nations. While much is said about the desirability of having developing countries participate in standard-setting or improve comparability, few resources are devoted to the task. It is implicitly assumed that if transnational corporations from developing countries want to tap global financial markets, they will comply with international standards. Thus, harmonization will take place automatically in the most advanced developing countries. There are several problems with these assumptions. First, information requirements differ from market to market. New transnational corporations might choose markets with lower reporting requirements. Second, transnational corporations are finding new ways of exercising control, particularly through non-equity forms. If regulation occurs only through the market place, it might be insufficient. It is important for developing countries to be players in international standard-setting so that these standards reflect global realities and there is some incentive for developing countries to adopt them. Of course, developing countries need to adapt and implement these standards.

D. Further cooperation at the international level

28. One reason offered as to why harmonization efforts have met with only limited success to date, is that, "the existence of many suppliers of international accounting standards may have confused the issue". 19/ This criticism springs from an incomplete understanding of the dynamics among the organizations concerned.

Before describing these, it is important to remember that there are fundamental differences among these organizations. First, some are international in membership (IASC, IFAC, the Intergovernmental Working Group) while others are regional (the European Community, OECD). Second, some are intergovernmental (the European Community, OECD, the Intergovernmental Working Group) while others are private (IASC, IFAC). Lastly, some concentrate on financial information (IASC, the European Community) while others cover both financial and non-financial aspects (the Intergovernmental Working Group, IFAC, OECD). Only one organization has enforcement powers (the European Community). In the others, the recommendations are voluntary (the Intergovernmental Working Group, IASC, IFAC, OECD).

29. All these organizations had their origins during the same period, that is, the first half of the 1970s. Some experts have criticized the fact that the same issues were discussed in all these forums. The Intergovernmental Working Group was mandated by the Economic and Social Council to work through the minimum list; the European Community needed to establish a basis for accounting regulation through the Fourth, Seventh and Eighth Directives; OECD was charged with clarifying the Guidelines for Multilateral Enterprises pertaining to accounting. IASC set for itself the task of formulating and publishing accounting standards to be observed in the presentation of financial statements. Thus, in the initial years, the same basic issues needed to be discussed in forums that had different geographical scopes and different constituencies. The discussions were deepened and widened as they passed from forum to forum. This process contributed to the emergence of the consensus on a basic set of international standards. Now that the minimum agenda for information disclosure has been accomplished, the organizations concerned can turn their attention to other matters, such as reducing the options, tackling the more complex or controversial topics or non-financial topics, giving technical assistance and trying to improve the level of compliance worldwide. It would also be difficult to continue duplication given the fact that very few human and financial resources are devoted to these activities. 20/ At this point, the organizations are rethinking and re-articulating their objectives and activities and probably their work will be further rationalized. It might be advisable if those responsible for accounting and reporting issues in these organizations met annually to coordinate their activities. At present, this happens informally and piecemeal, when more continuous and comprehensive efforts are called for.

III. REDEFINITION OF OBJECTIVES

30. At the eighth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, the experts were of the opinion that the objectives of the Group should be stated in positive terms and that the Group should make new efforts to contribute to national, regional and international standard-setting. The question is whether it would be desirable to return to the Economic and Social Council to modify the Group's mandate, contained in Council resolution 1982/67, by rephrasing it in more positive language.

31. The present language is neutral in tone, particularly towards transnational corporations. It does not ascribe either a positive or negative role to them. In fact, they are mentioned only once. According to the resolution, the Group should:

(a) Serve as an international body for the consideration of issues of accounting and reporting that fall within the scope of the work of the Commission on Transnational Corporations;

(b) Review developments in this field, including the work of standard-setting bodies;

(c) Concentrate on establishing priorities, taking into account the needs of home and host countries, particularly those of developing countries;

(d) Take into account the work of the Ad Hoc Group;

(e) Consult the international bodies which it deems appropriate;

(f) Elicit views of other interested parties on specific issues.

32. As far as methods to be used in fulfilling the mandate are concerned, the wording is rather vague. The mandate could be made more specific and more action-oriented, but that would require radical changes. In order to make the mandate clearer and more positive, a mission statement could be formulated.

33. There follows a draft proposal for a mission statement for discussion by the Group.

34. The validity of the original mandate of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting has been highlighted by a number of world events, which reinforce the need for international standards of accounting and reporting. These events include greater European integration by 1992, structural changes in Eastern Europe (both political and economic), stagnation in Africa and Latin America, the globalization of financial markets and the role of transnational corporations in all of these developments.

35. In order to meet the challenges posed by the changing global economy, the dynamic role of transnational corporations and the continued need of home and host countries for adequate and comparable financial and non-financial information, the Group adopts the following statement of its objectives, which are derived from the existing mandate contained in Economic and Social Council resolution 1982/67.

36. The Group will continue to:

(a) Serve as an international body in which countries from all regions can exchange information and be informed of the latest developments in the area of the harmonization of accounting and reporting standards;

(b) Ensure that the needs of a diverse group of users are met by improving the availability and comparability of financial and non-financial information; in particular, the Group will ensure that the needs of developing countries whose economic growth and development is partly dependent on the activities of transnational corporations are met;

(c) Review international standards and the activities of international organizations to ensure that the needs of diverse users are met; where there are gaps, the Group will conduct research in order to be able to formulate recommendations;

(d) Monitor on a periodic basis the progress made in the harmonization of national accounting standards and their implementation and use and indicate problem areas;

(e) Promote technical assistance to countries for the purpose of standard-setting; in particular, to help countries adapt international standards to suit their national needs and to assist them in their application and use;

(f) Promote, within the context of the technical cooperation programme on transnational corporations, technical assistance that will further accountancy development, including education, training, research and the organization of the profession, particularly in developing countries.

37. In order to accomplish these objectives, the Group agrees to carry out the following activities:

(a) Conduct periodic surveys of the needs of all users and assessments of how well they are being met;

(b) Monitor progress in information disclosure and harmonization by transnational corporations to evaluate compliance with international standards;

(c) Make recommendations based on the above surveys to remedy deficiencies, indicating areas of non-compliance with standards and areas where there are gaps;

(d) Identify special issues in the area of international accounting standards and undertake research which introduces a broad perspective and takes into account the situation in developing countries;

(e) Encourage the United Nations Centre on Transnational Corporations to develop a comprehensive programme of technical co-operation to assist countries with standard-setting, adaptation of international standards, implementation and use;

(f) Encourage the Centre to develop, within the context of its comprehensive technical co-operation programme on transnational corporations, activities in the area of accountancy development, including education, training and research, by organizing workshops and courses, developing curricula and providing materials and fellowships;

(g) Encourage the Centre to liaise, co-operate and communicate with other international bodies and organizations (public and private, inside and outside the United Nations system) interested in the development of international standards of accounting and reporting;

(h) Encourage the Centre to set up a clearinghouse for information on the development and application of international standards;

(i) Make a maximum effort to disseminate information about the work and accomplishments of the Group and to disseminate its publications;

(j) Encourage its member States to cooperate in these activities by providing associate experts and funding for technical cooperation programmes of the Centre in the area of accounting and reporting;

(k) Above all, ensure that each of its member States, particularly developing countries, participate to the maximum possible extent in its activities by co-operating in efforts to raise funds to support such participation.

38. Besides these activities, a number of practical steps could be taken which would permit the Group to work more efficiently. The Group could shorten its annual session by streamlining its report-writing. The size of the group of "friends of the Rapporteur" could be reduced so that it could work more rapidly.

39. For the purpose of conducting surveys and basic research, the Group could form small working parties which could meet between annual sessions.

40. The elected Bureau could remain in closer contact with the United Nations Centre on Transnational Corporations during the year and undertake, when appropriate, liaison functions. Each expert could actively disseminate information about the Group, its work and publications within his/her own country and countries within the region. Experts from developing countries could participate in the design of technical cooperation projects for their regions.

Notes

1/ United Nations publication, Sales No. E.84.II.A.2.

2/ United Nations publication, Sales No. E.88.II.A.18.

3/ United Nations publication, Sales No. E.89.II.A.18.

4/ United Nations Centre on Transnational Corporations, Data base on foreign direct investment, 1990.

5/ See Transnational Corporations in World Development: Trends and Prospects (United Nations publication, Sales No. E.88.II.A.7 and corrigendum).

6/ Ibid.

7/ D. Peavy and S. Webster, "Is GAAP the Gap to International Markets", Management Accounting, August 1990.

Notes (continued)

8/ F. Choi and R. M. Levich, International Accounting Diversity and Capital Market Decisions (Homewood, Illinois, Dow-Jones Irwin), forthcoming.

9/ Frederick Choi, "The role of ISAR in international standard setting", 20-21 February 1990.

10/ Ibid.

11/ D. Wygal and others, "Reporting practices in four countries", Management Accounting, December 1987.

12/ "International survey of financial statements published by transnational corporations and other enterprises: report of the Secretary-General" (E/C.10/AC.3/1990/4).

13/ D. Tonkin, World Survey of Published Accounts (Atlanta, Georgia, United States of America, Lafferty Publications, 1989).

14/ OECD, Working Group on Accounting Standards, Survey on the Application of the Disclosure of Information Chapter of the OECD Guidelines (Paris, 23 November 1989).

15/ Ibid.

16/ Federation of European Accountants, European Survey of Published Financial Statements in the Context of the Fourth EC Directive (Brussels, 1989).

17/ A. Simmonds and O. Azieres, Accounting for Europe - Success by 2000 A.D.? (London, Touche Ross, Europe, May 1989).

18/ "Ways and means of improving education, research and practical training in the field of accounting and reporting in member States: results of the survey on Africa: report of the Secretary-General" (E/C.10/AC.3/1990/11).

19/ M. A. Diamond and others, Position Paper for the International Financial Reporting Forum: IASC's Comparability Project, Topical Issues Studies No. 3 (University of Southern California, 1990).

20/ There is a total of seven full-time professional staff members: 1.5 at the European Community, 1.5 at OECD, 2 at IASC and 2 at the United Nations Centre on Transnational Corporations.

Annex

INTERIM REPORT ON THE PARTICIPATION OF DEVELOPING COUNTRIES IN THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

1. The objective of this interim report is to review the participation of developing countries in the activities of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, analyse obstacles to their participation, recommend solutions and, finally, assess the prospects for their participation in the ninth session of the Group, to be held at United Nations Headquarters from 5 to 15 March 1991.

2. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting was formally established in 1982 by the Economic and Social Council in resolution 1982/67. This resolution was the culmination of years of activities in the area of information disclosure and harmonization of accounting standards. These activities began in 1975, when a Group of Eminent Persons was appointed to study the effects of transnational corporations on developing countries. Their recommendations were studied by an expert group, which issued a minimum list for the disclosure of financial and non-financial information in 1977. In May 1979, an ad hoc intergovernmental group was set up to deal with the issues identified by the expert group in 1977.

3. The Ad Hoc Group held six sessions, between 1980 and 1982. On average, 12 of the 22 representatives (55 per cent) were from developing countries. The results of the deliberations of the Ad Hoc Group are contained in its report (E/C.10/1982/8/Rev.1). a/ The Economic and Social Council decided to put the Ad Hoc Group on a more formal and effective basis by establishing an intergovernmental expert group which would meet on a regular basis to fulfil a specific mandate.

I. PARTICIPATION OF DEVELOPING COUNTRIES IN THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

A. Attendance

4. Developing countries have played an active role from the beginning, since it was they who requested the Economic and Social Council to undertake a comprehensive survey of the activities of transnational corporations. They were represented in the Group of Eminent Persons, in the expert group and in the Ad Hoc Group. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting has met annually for the past eight years (1983-1990). The results

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a/ United Nations publication, Sales No. E.84.II.A.2.

of its work are contained in the annual reviews entitled International Accounting and Reporting Issues, published since 1984, and in two key publications: Conclusions on Accounting and Reporting by Transnational Corporations b/ and Objectives and Concepts Underlying Financial Statements. c/ The Group has since begun to support technical co-operation projects in the area of standard-setting and accounting education which the United Nations Centre on Transnational Corporations is implementing in Africa and Central and Eastern Europe.

5. After a review of the participation of developing countries in the Group over the past eight years, a number of facts have emerged regarding their attendance, leadership role and research contribution.

6. In resolution 1982/67, the Economic and Social Council decided that the Group should be composed of 34 members. Of those members, 21, or 62 per cent, are from developing countries. The developing countries have constituted 60 per cent of the member countries over time. Concerning actual attendance, the overall attendance rate (i.e., attendees/members) was 86 per cent and the rate for developing countries was 76 per cent. The developing countries constitute on average 53 per cent of the attendees.

Table 1. Country attendance and membership, 1983-1991

(Number)

		Attendance		Membership	
Year	Session	Total	Developing country	Total	Developing country
1983	First	26	16 (60)	30	20 (66)
1984	Second	23	12 (50)	30	20 (66)
1985	Third	25	15 (60)	27	17 (63)
1986	Fourth	19	10 (53)	21	11 (52)
1987	Fifth	20	11 (55)	26	16 (62)
1988	Sixth	19	9 (47)	24	13 (54)
1989	Seventh	21	9 (43)	22	14 (45)
1990	Eighth	26	12 (46)	26	14 (54)
1991	Ninth	-	-	28	15 (54)
Total		179	94 (53)	234	140 (60)

Note: Figures in parentheses are percentages.

b/ United Nations publication, Sales No. E.88.II.A.18.

c/ United Nations publication, Sales No. E.89.II.A.18.

7. Overall attendance at the annual sessions of the Group has fluctuated from a high of 26 in the first year to a low of 19 in 1986 and 1988 and to a high of 26 in 1990. The recent surge in attendance might be explained by two factors: an increase in total members, particularly from Eastern Europe, and an increase in observers. It could very well be that there is more interest in the work of the Group since it has gone through a certain maturation process, engaged in a number of useful technical discussions, produced a number of helpful publications and embarked on a course that permits the results of its discussions to be applied for the benefit of countries in the process of standard-setting and organizing their professions.

B. Leadership role

8. Regarding leadership roles, the developing countries have held the following positions since 1983.

	Chairman	Rapporteur
1983	Philippines	Pakistan
1984	-	India
1985	Pakistan	Cyprus
1986	Uruguay	Nigeria
1987	Egypt	Cyprus
1988	-	Malawi
1989	India	-
1990	-	Kenya

C. Research contribution

9. Developing countries have taken an active part in the substantive work of the Group. Nigeria and Brazil joined the informal working party which prepared Objectives and Concepts Underlying Financial Statements. The representative of Brazil was instrumental in drafting the Group's conclusions on hyperinflation during the seventh session. At the eighth and ninth sessions, Brazilian experts have and are contributing to the research on environmental accounting. In addition, experts from India and Mexico are members of the Task Force on Improvements in Accounting for Joint Ventures in the USSR and have written reports on the process of privatization in their countries. The expert from Kenya made major efforts to secure the support of his Government and the local accounting body for the regional meeting on accountancy development in Africa. Likewise, the expert from the Fédération internationale des experts-comptables francophones (FIDEF), Senegal, has made similar arrangements with his Government, the local accounting body and FIDEF to organize a regional meeting at Dakar. In addition, he has secured partial funding from FIDEF for that meeting. The expert from Jordan is investigating the possibility of holding a regional meeting to discuss progress in standard-setting in the Arab world but, given recent events, this gathering may be delayed.

10. Overall, it can be concluded that the level of developing country participation in substantive activities is high and cannot be faulted when compared with developed country contributions. Many of the developing country experts hold responsible positions (Auditor General for Banks, Accountant General, Director of Budget, Deputy Comptroller of Audit and Auditor General) and, despite their tight schedules, find time to attend the annual sessions and ad hoc meetings of the Group, and to conduct original research benefiting the Group. Many of these contributions are not always apparent to all members of the Group because they take place outside the annual sessions.

II. PARTICIPATION IN THE NINTH SESSION

11. It is necessary to bear in mind that the Group has not yet attained full membership. However, in 1990, six countries joined the Group, seven countries renewed their membership and four countries did not renew it. The overall membership in the Group had increased from 21 in 1986 to 28 by mid-November 1990.

12. New members from developing countries include Argentina (1989), Chile (1989), Jordan (1989), Mexico (1990), Morocco (1990), Peru (1989) and Thailand (1990). However, Swaziland and Zaire did not renew membership in 1990. The Centre understands that Swaziland intends to renew its membership.

13. A number of developing countries have written to the Centre expressing interest in membership: Colombia, Egypt, Ethiopia, Gabon, Haiti, Malaysia, Mauritius, Namibia, Pakistan, Senegal, Tunisia and Zimbabwe. Hence, there is reason to believe that there will be more than 28 members at the time of the ninth session or at the very least that countries will attend as observers, especially if financial assistance for travel and subsistence can be obtained.

14. It should also be mentioned that various regional organizations such as the Chartered Association of Certified Accountants, the Arab Society of Certified Accountants (ASCA) and the Fédération internationale des experts-comptables francophones (FIDEF) are applying for non-governmental status so that they can better participate in the work of the Group.

Table 2. Current status of membership a/

Region and country	Number of members	Number of vacancies
African States	5	4
Kenya, Malawi, Morocco, Nigeria, Uganda		
Asian States	6	1
China, Cyprus, India, Japan, Jordan, Thailand		
Eastern European States	3	0
Czechoslovakia, Hungary, Union of Soviet Socialist Republics		
Latin American States	5	1
Argentina, Brazil, Chile, Mexico, Peru		
Western European and other States	9	0
France, Germany, Italy, Netherlands, Spain, Sweden, Switzerland, Turkey, United Kingdom of Great Britain and Northern Ireland		
Total	28	6

Note: Election of members to fill vacancies takes place at the first regular session of the Economic and Social Council each year. The Council may be called upon to hold elections at later sessions also.

a/ As at 17 September 1990.

Table 3. Changes in membership status, 1990

Members	Term expires	Action
Argentina	1991	-
Brazil	1990	Renewed
Canada	1990	Did not renew
Chile	1991	-
China	1990	Renewed
Cyprus	1991	-
Czechoslovakia	1991	-
France	1990	Renewed
Germany	1991	-
Hungary	-	Joined 1990
India	1991	-
Italy	1991	-
Japan	1991	-
Jordan	1991	-
Kenya	1990	Renewed
Malawi	1991	-
Mexico	-	Joined 1990
Morocco	-	Joined 1990
Netherlands	1991	-
Nigeria	1991	-
Norway	1990	Did not renew
Peru	1991	-
Spain	1990	Renewed
Swaziland	1990	Did not renew
Sweden	-	Joined 1990
Switzerland	1990	Renewed
Thailand	-	Joined 1990
Turkey	-	Joined 1990
Uganda	1991	-
USSR	1990	Renewed
United Kingdom	1991	-
Zaire	1990	Did not renew

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III. OBSTACLES TO PARTICIPATION

15. In resolution 1982/67, the Economic and Social Council decided to "request the Secretary-General to facilitate, when necessary, the effective participation of members of the Group through payment of their travel and subsistence expenses from extrabudgetary resources".

16. The fact that developing country members fall short of overall attendance rates (76 per cent versus 86 per cent) has been taken as a lack of interest in the work of the Group, whereas the problem is really one of lack of resources. Almost all the current developing country members have a large external debt and balance-of-payments problems.

Table 4. External debt of developing country members of the Group

Country	External debt stock, 1989 (billions of dollars)	Share of debt stock in annual GNP (percentage)
Severely indebted low income		
Kenya	6.0	71.3
Malawi	1.3	97.2
Nigeria	31.0	107.1
Severely indebted middle income		
Argentina	59.0	60.5
Brazil	114.0	30.7
Chile	18.0	96.6
Mexico	96.0	58.0
Morocco	20.0	105.9
Peru	19.0	47.3
Moderately indebted low income		
Uganda	2.0	43.2
Other developing countries		
China	49.0	11.3
India	64.0	22.3
Jordan	6.0	110.0
Thailand	21.0	36.1

Sources: World Bank, Financial Flows to Developing Countries (Washington, D.C., 1990) and World Debt Tables 1989-1990, vol. 2, Country Tables (Washington, D.C., 1990).

17. Countries with severe balance-of-payments problems, internal strife or a change in government find it difficult to allocate the human and financial resources to attend a two-week accounting meeting. Obviously, no matter how much importance they attach to information disclosure and comparable financial statements, the daily task of running the country under the most difficult circumstances takes precedence. One of these reasons or another has impeded the recent participation of otherwise active countries such as Argentina, Chile, Malawi, Swaziland, Uganda and Zaire.

18. While Governments of developing countries have almost always paid the travel costs of their experts, the Centre has received extrabudgetary funds to cover their hard currency subsistence costs. This has been possible owing to the generous ad hoc contributions of the Governments of Finland, Norway and Switzerland. Unfortunately, since the uncertainty of such funding is resolved only at the last moment, some developing country experts cannot be contacted in time to attend.

19. Often these contributions are given with constraints, such as that they be used only for experts from the least developed countries. Only two States members of the Group currently qualify - Malawi and Uganda. The criteria for the least developed countries - lowest income per capita, literacy rates and value-added in manufacturing - may not be the right criteria to determine if a country will benefit from and contribute to the work of the Group. Other low- and medium-income countries with balance-of-payments problems could also benefit but sometimes they fall outside the Centre's "safety net" created from extrabudgetary funds.

20. It should be noted that some developed countries have also had difficulty in funding travel to attend sessions of the Group. This is particularly so in countries where standard-setting is largely a private sector function rather than a governmental one. In these times of governmental budget deficits, ministries and departments are forced to make hard choices. If the relevant ministry/department does not have the responsibility for standard-setting there is a temptation to cut travel to meetings which are not vital to its work however vital they may be to national objectives.

IV. SOLUTIONS

21. Given the need to put the Group on a firm financial footing, the Executive Director of the United Nations Centre on Transnational Corporations, at the seventh session of the Group, proposed the creation of a permanent trust fund. At the eighth session, one expert suggested that one developed country sponsor one expert from a developing country on a continuous basis. The Executive Director wrote to a number of developed countries on 17 September 1990, requesting them to consider that proposal. The Centre is currently following up that request.

22. At its current session, the Group will discuss appropriate measures to give effect to its work. It will review the objectives of the Group as well as ways of achieving them. One solution might be to request the Economic and Social Council, through the Commission on Transnational Corporations, to encourage member countries to contribute the extrabudgetary funding mentioned in Council resolution 1982/67.

The Group might also reduce costs by shortening the length of its annual session. This could be done by streamlining its report-writing: if the drafting of the report could be entrusted to the Rapporteur and several representative friends of the Rapporteur instead of a larger group, the time spent in drafting could be reduced. There would be no reduction in the time allocated to the discussion of substantive issues.

23. The Group could also strengthen its work by meeting during the year in smaller, ad hoc groups to work on particular issues. Such groups might be easier to fund since a country or an international organization might be interested in funding work on a particular topic. This has been the case in accounting for joint ventures, privatization and environmental accounting.